

NOVATRANS ENERGIA S.A. - TRANSMISSION PROJECT

DEAL OF THE YEAR NOMINATION REGION: LATIN AMERICA (BRAZIL) SECTOR: INFRASTRUCTURE

TRANSACTION INFORMATION

- **Closing Date:** July 8, 2004
- **Location:** Brazil
- **Description:** Novatrans Energia S.A. (Novatrans) is the concessionaire for the development, construction, erection, commissioning, operation and maintenance of a transmission line from the Imperatriz Substation to Samambaia Substation, crossing Brazil's central area.
- **Sponsor:** Terna SpA, an Italian company that owns over 90% of the transmission grid for high and very high voltage of its home market, with more than 38,000 km of lines. It also operates about 21,000 km of high voltage lines owned by Enel Distribuzione and has controlling interest in two Brazilian companies, Novatrans Energia S.A. and TSN - Transmissora Sudeste - Nordeste S.A., which operate in the energy transmission sector in Brazil. Terna S.p.A.
- **Lenders:**
 - Inter-American Development Bank
 - BBVA (Lead Arranger/B-Lender)
 - Société Générale (Co-Arranger/B-Lender)
 - BNDES
 - Itau BBA
 - ABM AMRO
- **Debt issued:**
 - IDB A-loan US\$30 million
 - IDB B-loan US\$36 million
 - BNDES US\$150.8 million
 - ABN AMRO/ITAU BBA US\$41.4 million
- **Total Project Cost:** Approximately US\$427.1 million
- **Counsel to the IDB:** Latham and Watkins – Felsberg e Associados

- **Counsel to Sponsor :** Allen & Overy – Souza Sescon
- **Economic Consultant:** Estudios Energéticos
- **Independent Engineer:** Mott MacDonald Ltd.
- **Environmental and social Consultant:** Sargent & Lundy
- **Insurance Advisory:** Willis, Ltd.

Project Description

The Project comprises the development, construction, commissioning, operation and maintenance of a 1,200-Megawatt, 1,278-Kilometer, 500-Kilovolt energy transmission line from the *Imperatriz* substation (in the State of *Maranhão*) to *Samambaia* substation (in the *Distrito Federal*) crossing Brazil's central area (the "Project"). Such transmission line consists in the "North-South Interconnection II" forming the second circuit at 500-Kv rated voltage *Imperatriz – Colinas* (in the State of *Tocantins*) – *Miracema – Gurupi - Serra da Mesa* and the third circuit *Serra da Mesa* (in the State of *Goiás*) – *Samambaia*. The Project also includes the construction and electro-mechanical assembly of the enlargement of six already existing substations: *Samambaia*, *Serra da Mesa*, *Gurupi*, *Miracema* and *Colinas*, and *Imperatriz*.

The Project results from a public bidding process conducted by *Agência Nacional de Energia Elétrica* on August 30, 2000 as a part of its program of granting concessions for the construction and operation of transmission lines. The Project was awarded to Novatrans, which at such time had as shareholders *Civilia Engenharia Ltda.*, *Construções e Comércio Camargo Corrêa S.A.* and *Camargo Corrêa Equipamentos e Sistemas S.A.* Subsequently, Novatrans' shareholder structure has been changed with Terna becoming its main shareholder and sponsor.

Terna S.p.A. is developing the Project through a Brazilian special purpose company *Novatrans Energia S.A.*, which is the concessionaire of the transmission line. Terna is a wholly owned subsidiary of *Enel S.p.A.* ("Enel"), which owns approximately 94 percent of Italy's national electricity grid.

The Project follows the existing North–South Interconnection I Transmission Line, sharing the access for inspection, maintenance, operation, and reducing the environmental impacts during construction and operation of the Project.

Project's revenues are pre-determined and denominated in *Reais* based on the annual permitted revenues set forth in the concession contract. Such revenues are invoiced monthly to grid users and guaranteed by funds derived from users' account receivables or bank guarantees.

Rationale of the Inter-American Development Bank Participation

Financial additionality. Transmission line projects require long construction periods and high capital costs. As a consequence, the viability of these projects relies critically on long tenors and a financing structure typically not available from private lenders. In Brazil, the public bank BNDES is in practice the sole provider of long-term financing for infrastructure projects while typically funding from international commercial banks (through the B-Loan) is only available at the amounts and tenors required by this type of projects with the participation of multilateral agencies such as the IDB. Thus, the Bank's long-term financing (through the A-Loan) and mobilization of private long-term funding (through the B-Loan) is critical to bring transmission infrastructure projects to fruition.

Regulatory and institutional additionality. The Project provides the Bank with a platform to address and improve several important regulatory issues affecting private investment in the sector. Many issues that are dealt with in the structuring of the operation –i.e., certain aspects of the Concession, requirements for the operation of the transmission line, payment mechanisms under the Concession and related agreements—are being discussed with the corresponding Brazilian authorities (particularly with ANEEL and ONS), thereby allowing the Bank participate in their improvement. As such, Bank support to the Project helps to accelerate a move towards increasingly appropriate sector regulation and enforcement of the applicable regulatory and institutional framework.

Regulatory risk mitigation. Bank involvement in this Project will provide comfort to private investors and commercial banks that the GOB will fulfill its regulatory and contractual obligations (i.e., termination payments under the Concession, imposition of fines) and exercise its discretionary powers in a fair and consistent manner. This is particularly important in the context of an evolving regulatory and institutional framework in which the market perceives regulatory risks as being higher. Another unique role for the Bank in mitigating regulatory risks and thus being able to mobilize funds from international private lenders is its *de facto* mitigation of convertibility and transferability risks arising from the financing in US dollars under its B-Loan umbrella.

Environmental, social, health and safety additionality. Bank participation in the financing will help to ensure a positive environmental outcome. The Bank has adopted strict environmental standards that must be met by any Project financed by the Bank. Bank involvement would ensure compliance with international best practice, which would have not been obtained without the application of Bank's standards.

Catalytic demonstration effect. Novatrans will be the first Brazilian transmission project supported by international financing. Bank participation will thus have a demonstration effect to the international financial community regarding the bankability of these types of projects, thereby encouraging new investments in transmission.

Project Benefits

The Project contributes to increasing transmission capacity in Brazil, interconnecting Brazil's Northern and Southeast regions, making the interconnected electric system more reliable and providing greater capacity. Seasonal hydrological differences between these regions mean that generating capacity can be shared if they are interconnected, thus reducing the need for additional capacity. The Project will contribute the equivalent of 205 continuous MW (1,795.8 GWh per year) to hydroelectric firm energy due to better reservoir operations and gains from seasonal complementarity between the Northern and Southern hydroelectric generation.

The Project also reduces energy shortages and interruptions caused by long distance transmission instabilities, while alleviating transmission bottlenecks in the Southeast. This developmental impact will contribute to improving the reliability of the Brazilian electricity grid, and due to the stability reduce the use of conventional fuels.

Conclusion

The rationale for the nomination of the Novatrans for the Deal of the Year may be summarized as follows:

- Novatrans is the largest private-owned transmission line in Brazil and is part of the local priority program sponsored by the Brazilian government for the energy sector.
- Novatrans is of utmost importance to the energy system, since it reinforces the transmission grid that allows the delivered of the energy produced in particular in the North (*e.g.* 8370MW Tucuruí hydro power plant).
- Novatrans is the first transmission line financed in Brazil to count with the umbrella of the Inter-American Development Bank under an A/B Loan structure.
- Novatrans is the first Brazilian transmission project supported by international lenders under a project finance modality.